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**New Zealand**

**Kiwifruit**

**Annual**

**2003**

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**Report Highlights: Total kiwifruit production and exports in 2003 will be similar to last season. Increased production attributed to a larger harvest area is offset by frost losses. Concerns over low quality exports to Australia and the undocumented and unauthorized onward shipment of New Zealand kiwifruit from Australia is leading to the imposition of tighter export regulations.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report

***SECTION I. SITUATION & OUTLOOK***

The total kiwifruit harvest for the 2003 season (March 2003 to February 2004) is forecast at 245,000 tons (68.1 million 3.6 kg. trays). In line with the slight drop in the upcoming harvest, exports during the 2003 season are forecast to decline modestly to 225,000 tons (62.5 million trays). The kiwifruit crop will be harvested April-May 2003. Severe frosts affected kiwifruit crops in areas along the east coast of the North Island. Good fruit set in orchards not affected by the frosts and a continuing increase of kiwifruit volumes from new plantings, however, will partially offset fruit losses from the cold weather. Volumes of individual Green, Gold, and Organic varieties will fall modestly compared with the 2002 season.

Kiwifruit exports to Australia will be regulated for the first time under the Horticultural Export Authority (HEA) Act 1987. The industry hopes that this will improve annual export returns from sales to the Australian market by an estimated NZ \$5 million (U.S. \$ 2.5 million). In a separate but related issue, the amendment of the HEA Act to include kiwifruit is designed to curb illegal shipments of fruit which are documented as being sold to Australia but end up in Asian and Middle Eastern markets. Zespri has traced the movement of a shipment to China, and believes that this and other illegal consignments are undercutting grower returns by NZ \$3 million (U.S. \$ 1.5 million) in the Chinese market. Zespri maintains that New Zealand Customs cleared the intercepted shipment to Australia and that the shipping documents were later changed. The fruit was not discharged when the vessel arrived at the Australian port but continued its journey to a third country. Zespri enjoys a statutory monopoly on kiwifruit export sales to all countries, except Australia. Despite the HEA Act amendment which will make exports to Australia more transparent to regulators, non-Zespri kiwifruit is likely to continue circumventing New Zealand export regulations.

Zespri is in its second season of supplying Northern Hemisphere kiwifruit grown under its year-round supply program. Zespri has been developing sources of Northern Hemisphere Gold kiwifruit through licensed production in Italy (300 hectares), California (300 hectares) and most recently France. Production of the Gold variety under license from Zespri from the Northern Hemisphere reached 32,400 tons this year. Long-term, Zespri reportedly intends to license production on 2000 hectares in the hope of producing approximately 72,000 tons annually of this high-yielding kiwifruit variety which would be similar to the quantity of Gold kiwifruit Zespri wants to produce in New Zealand.

**SECTION II. STATISTICAL TABLES**

Kiwifruit PS&amp;D Table

PSD Table						
Country	New Zealand					
Commodity	Kiwifruit				(HA)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Bearing Area	10500	10500	0	10100	0	10500
Non-Bearing Area	250	250	0	1370	0	970
TOTAL Area Planted	10750	10750	0	11470	0	11470
TOTAL Area Harvested	10500	10500	0	10100	0	10500
TOTAL Production	237240	271000	0	247320	0	245000
Imports	150	150	0	150	0	150
TOTAL SUPPLY	237390	271150	0	247470	0	245150
Exports	220633	247000	0	227520	0	225000
Domestic Consumption	16757	24150	0	19950	0	20150
TOTAL DISTRIBUTION	237390	271150	0	247470	0	245150

## Trade Matrix: New Zealand Kiwifruit Exports

New Zealand Kiwifruit Exports Calendar Years, tons			
	2000	2001	2002*
Destination			
Other EU	88,834	127,134	88,558
Japan	39,847	38,566	48,955
Spain	31,904	12,230	23,949
United Kingdom	20,441	15,663	16,539
United States	17,837	18,572	14,319
Australia	16,490	18,798	13,248
Italy	8,402	5,954	12,125
Taiwan	9,490	10,852	10,466
Korea, South	4,881	6,835	8,770
Hong Kong	1,785	2,834	2,879
China	2,256	1,799	1,504
Saudi Arabia	1,001	1,506	1,098
Mexico	1,141	1,225	1,104
Singapore	584	1,025	1,194
Other	6,088	4,375	3,457
<b>Total</b>	<b>250,981</b>	<b>267,368</b>	<b>248,165</b>
* Year to Date (Jan - Oct)			
Source: Statistics New Zealand			

### **SECTION III. SUPPLY, DEMAND, POLICY AND MARKETING**

#### **PRODUCTION**

The total kiwifruit harvest for the 2003 season (March 2003 to February 2004) is forecast at 245,000 tons (68.1 million trays). Total kiwifruit exports for the 2003 season are forecast to be 225,000 tons (62.5 million trays). New Zealand's kiwifruit crop will be harvested April-May. Severe frosts in late September and early October 2002 in the Bay of Plenty, Hawke's Bay, and Gisborne regions of the North Island randomly affected kiwifruit vines in a large number of orchards. Especially hard hit was the early flowering Gold variety. This is offset, however, by a good fruit set in those orchards that did not experience frost damage and by new plantings reaching harvest age. Harvest area for the Gold variety is projected to increase 25 percent to approximately 1,280 hectares in 2003. Green kiwifruit production will benefit from an additional 110 hectares of harvest area. Total harvest volume and volumes of individual Green, Gold, and Organic varieties are likely to be down modestly compared with the 2002 season.

The estimated average return per tray for the 2002 season to growers for Zespri Green was NZ \$7.15 (U.S. \$3.58), for Zespri Organic NZ \$10.02 (U.S. \$5.01), and for Zespri Gold NZ \$ 10.20 (U.S. \$5.10).

#### **2002 Season Review**

Note: The normal selling season for New Zealand's kiwifruit begins in June/July each year and generally finishes in February the following year.

A smaller kiwifruit crop than initially anticipated by Zespri along with an early start to the selling season led to an early finish to the export season in December 2002. Zespri sales of the Green kiwifruit variety fell 13 percent to 47.7 million trays (171,720 tons). Zespri Organic kiwifruit volumes were down 4 percent to 2.4 million trays (8,640 tons). Zespri Gold kiwifruit export volumes increased 56 percent to 8.1 million trays (29,160 tons). Zespri's total kiwifruit export volume of 60.6 million trays (218,160 tons) was down 8 percent, but net revenue rose 3 percent thanks to sales prices which were on average 13 percent higher than in 2001. The difference between Zespri's export total of 218,160 tons and the national export figure of 227,520 tons reflects export sales of several small firms to the Australian market. Zespri's improved financial performance was driven by: 1) an early start to the export season combined with an early finish of the European kiwifruit marketing season, 2) a competitive New Zealand exchange rate, and 3) an aggressive promotional campaign in Japan that stimulated sales at good price levels. Overall, improved pricing is largely attributed to reduced volumes of New Zealand kiwifruit available in key European export markets. During the New Zealand export season, Zespri holds more than 60 percent of the European market and more than 90 percent of the Japanese market.

An unexpected shortfall of kiwifruit available for export was due, in part, to inaccurate pre-harvest crop estimates. The Zespri Gold crop was larger than the previous season but failed to meet the early

season predicted volume due to a larger proportion of small-sized and 'light' fruit. This made it difficult for Zespri to adhere to its planned marketing programs for Gold fruit. Zespri was compelled to divert some fruit initially programmed for Europe and the United States to higher-priced Asian markets. European market sales were reduced from a planned 43 million trays (154,800 tons) to 35 million trays (126,000 tons). Zespri Green and Organic kiwifruit sales in Europe fell 17 percent and 23 percent, respectively. The reduced volumes destined to European markets supported good price levels that were on average 10 percent higher than the previous season. Gold volumes rose 44 percent to 2.5 million trays (9,000 tons), but did not reach planned volumes.

The smaller crop and the diversion of fruit to higher priced Asian markets resulted in a 27 percent decline in movement to the United States to 3.1 million trays (11,160 tons). Marketing problems ensued since Zespri had offered price incentives to retail buyers in order to obtain shelf space in an effort to rebuild the market. Zespri believes that its future sales prospects remain very promising in the United States as well as European markets.

In Japan, Zespri has improved sales in all three variety categories compared with the previous 2001 season. Green kiwifruit sales reached 7.9 million trays (28,440 tons), up 28 percent over 2001. Gold export volumes more than doubled to 3.6 million trays (12,960 tons). Export sales revenue from this market increased 40 percent. The introduction of a minimum dry matter content standard (the 'Taste Japan' initiative) produced a better tasting Green kiwifruit for Japanese consumers and has led to a renewed interest in Green kiwifruit in this market. The potential for increased sales in Taiwan is good if retailers can be convinced to sell softer fruit. Zespri looks to grow market size and per capita consumption in Asian markets.

## **POLICY**

### ***Kiwifruit Exports to Australia to Come Under HEA Regulation***

Kiwifruit exports to Australia will be regulated under the Horticultural Export Authority (HEA) Act 1987 in an effort to improve returns to the industry. For some time, New Zealand growers and exporters have been concerned that Australia has developed into a low-priced, low quality export market for second grade New Zealand kiwifruit. Zespri also expresses its concern that Australia has become the gateway for illegal kiwifruit shipments to other export markets such as China which undercuts Zespri's prices. Zespri enjoys a statutory export monopoly to all export markets except Australia. Kiwifruit exports to Australia are not limited to Zespri due to the free trade provisions under the Australia-New Zealand Closer Economic Relations (CER) Agreement. These provisions create the opportunity for illegal (under New Zealand law) onward shipments from Australia of fruit sold by small New Zealand private shippers.

Zespri as well as other elements of the New Zealand kiwifruit industry requested the government to amend the Horticultural Export Authority (HEA) Act 1987 in order to include kiwifruit exports to Australia as a recognized product group. The New Zealand Government approved the amendment and legislation is expected to be introduced to parliament in February 2003. The amendment will allow the New Zealand kiwifruit industry to better coordinate market supplies to Australia by enforcing grade

standards. The HEA Act amendment is also seen as a remedy to curb illegal onward shipments from Australia. Under the HEA Act product group rules, exporters will be asked to explain their export plans before the start of the export season. These plans need to be in agreement with the marketing strategy that the HEA kiwifruit product group develops. While the amendment will make exports to Australia more transparent to HEA regulators, it is not likely to be sufficient to eliminate all unauthorized export shipment activity.

## MARKETING

### *Zespri's 12-Month Marketing Plan*

Zespri is now in the middle of its second season supplying Northern Hemisphere kiwifruit grown under its year-round supply program. Zespri Europe, Zespri Group Ltd.'s European subsidiary, is selling Italian-grown Zespri kiwifruit to Spain, Belgium, Germany, Holland and the UK. Northern Hemisphere supplies of Zespri Green kiwifruit will reach about 4,000 tons (1.1 million trays) this season. This volume is forecast to increase to a target of 21,600 tons (6 million trays) in the near future. Zespri has also been developing sources of Northern Hemisphere Gold kiwifruit. Keeping tight control over the production and marketing of the Gold kiwifruit variety, Zespri has licensed 300 hectares of Gold vines in Italy and 300 hectares in California. Additionally, Zespri has just finalized a contract with a French grower. Northern Hemisphere production of the Gold variety reached about 32,400 tons (9 million trays) this year. Long-term, Zespri intends to license production on about 2000 hectares, which will produce approximately 64,800 tons (18 million trays) a year, the same amount Zespri seeks to grow on a similar area from New Zealand orchards.

### *Zespri Gold*

In its annual report, Zespri indicates that it intends to make the Gold kiwifruit variety the mainstay of its product-mix. With the New Zealand 2002 season just finished, the Gold kiwifruit variety is now firmly established in export markets, after having endured two previous years of quality problems. Fruit rot during transit and storage, caused by the Gold variety's specific temperature management requirements, was the principal cause of the marketing difficulties experienced. Zespri, however, initiated an enhanced cold storage temperature regime which yielded improved quality in overseas markets this past 2002 season. Fruit losses were reduced from 7 percent in 2001 to 2.3 percent in the 2002 season. According to industry insiders, this third season of Gold kiwifruit export sales was critical for the Gold variety to become established in Zespri's product-mix. In the 2002 season, the Gold variety also played a crucial role in reviving the weak Japanese market. Zespri invested heavily into a marketing campaign for Gold kiwifruit which was designed both to increase sales of its Gold variety and to stimulate indirectly sales of its Green variety. This was complemented by the 'Taste Japan' initiative.